

# **EXHIBIT I**

**STRUCTURED FINANCE****Special Report****Structured Finance CDO Ratings Surveillance Brief**  
**September 2007****AUTHOR**

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**INTRODUCTION**

The Structured Finance CDO (SF CDO) Ratings Surveillance Brief is a monthly publication that updates the market on rating actions taken by Moody's during the previous month on CDOs backed by pools of structured finance assets including subprime RMBS as well as summary market commentaries describing reasons, trends, and potential outlooks for these actions.

**OVERVIEW**

In September, Moody's continued to observe higher delinquency levels in the 2006 vintage as a whole than previous vintages. Moody's found that the 2006 vintage subprime mortgages have experienced a wide range of performance.<sup>1</sup> In addition, in one Special Report published in September, Moody's commented on the results of its subprime servicer survey regarding loan modifications. The survey showed that most servicers have so far modified only about 1% of the loans that were to reset in January, April and July 2007. In another Special Report, Moody's also said that as of September 19 it has downgraded or placed on review for possible downgrade 496 first-lien, mortgage-backed securities issued in 2006 (or 3.04% of first-lien MBS tranches rated by Moody's), the vast majority of which (437) were backed by subprime loans<sup>2</sup>

As a result of the continuing stress in the subprime RMBS sector, Moody's took more rating actions on SF CDOs in September. Highlights of the US SF CDO rating actions in 2007 as of September include:

- In September 2007, 44 tranches from 28 CDO transactions were downgraded and 113 tranches from 51 CDO transactions were placed on review for downgrade. By comparison, there were 25 downgrades and 73 review-for-downgrades in August. 37 of the 44 downgrades and 83 of the 113 downgrade reviews were taken on CDOs that were issued in 2006.
- For the nine-month period in 2007, Moody's had downgraded a total of 73 investment-grade SF CDO securities (or \$2.9 billion by their outstanding principal balance), representing 1.7% of all outstanding Moody's-rated investment-grade SF CDO securities (or 0.5% by outstanding balance) at the end of September 2007. In addition, Moody's had placed under negative review 301 investment-grade SF CDO securities (or \$12.5 billion by their outstanding balance) in the same period, accounting for 7.1% of all such securities outstanding on September 30 (or 2.4% by their outstanding balance).

<sup>1</sup> See "US Subprime Mortgage Market Update: September 2007," October 3, 2007.

<sup>2</sup> See "Moody's Subprime Mortgage Servicer Survey on Loan Modifications," September 21, 2007, and "Early Defaults Rise in Mortgage Securitizations: Updated Data Show Continued Deterioration," September 19, 2007.

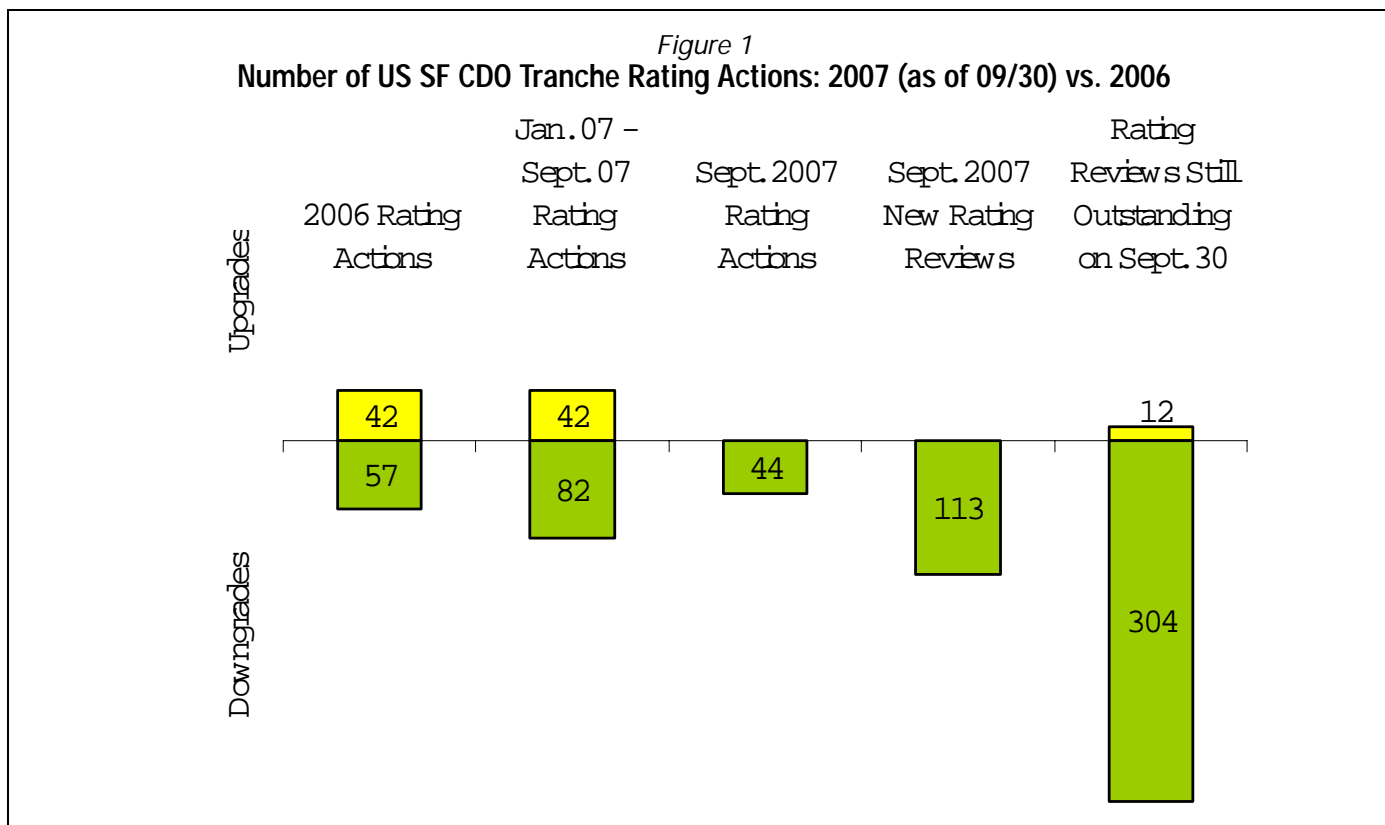


**Moody's Investors Service**

**October 23, 2007**

- To date, eleven **Aaa** SF CDO tranches, or about \$1 billion by outstanding balance, were downgraded in 2007. This accounts for 0.6% of all **Aaa** SF CDO tranches outstanding, or 0.2% by outstanding balance. Furthermore, Moody's had placed 39 **Aaa** SF CDO tranches, or \$4 billion by principal balance, on review for downgrade during the nine-month period. This represents approximately 2.1% of all **Aaa** SF CDO tranches by count and 0.9% by principal balance.
- 304, or approximately \$11.3 billion SF CDOs, were still on review for downgrade as of September 30, representing roughly 6.7% of the total number of outstanding SF CDO tranches or 2.1% by their principal balance outstanding. More than 75% of the tranches still on negative review (by count) were currently rated single-A or below.<sup>3</sup>

On October 11, Moody's announced that it had downgraded \$33.4 billion or 2,183 securities issued in 2006 backed by subprime first lien mortgages, representing 7.8% of the original dollar volume of such securities rated by Moody's. In addition, another \$23.8 billion of first-lien RMBS were placed on review for downgrade, representing 5.6% of the dollar volume of subprime first-lien securities rated in 2006, including 48 Aaa-rated and 529 Aa-rated securities. As a result, a large number of SF CDOs are expected to be put on review for downgrade in October.<sup>4</sup>



### HIGHLIGHTS FOR FIGURES 2 AND 3

- By the end of September, the total number of downgrades and reviews for downgrade had greatly exceeded their totals in 2006. These recent downgrades had affected almost 6% of the outstanding transactions and the reviews for downgrades had affected about 17% of the transactions. Additionally, Figure 3 shows that the corresponding figures based on outstanding principal balance are significantly smaller at 0.6% for those affected by downgrades and 2.5% for those affected by negative reviews.
- By comparison, the affected tranches as a share of all outstanding tranches were 1.8% for downgrades and

<sup>3</sup> The number of downgrades by rating outstanding at the beginning of 2007 differs from that by original rating. See Figure 5 for a transition matrix based on the outstanding ratings. The dataset of this report contains all pari passu tranches, which are collapsed into a single tranche in Moody's semi-annual CDO rating action update. See for example, "[Rating Actions in the U.S. CDO Market - Year-to-Date Review - June 2007](#)," August 2007. In addition, all Moody's-rated tranches including wrapped tranches and non-US dollar denominated tranches are included in the dataset. For additional rating transition statistics of structured finance securities worldwide, please also see Moody's Special Comment, "[Structured Finance Rating Transitions: 1983-2006](#)," January 2007, and "[The Performance of Structured Finance Ratings: Full-Year 2006 Report](#)"

<sup>4</sup> "Moody's Downgrades \$33.4 billion of 2006 Subprime First-Lien RMBS and Affirms \$280 billion Aaa's and Aa's," Moody's Rating Actions Press Release, October 11, 2007.

8.0% for negative reviews, both of which are lower than those measured by deal counts. While the downgraded tranches as a share of all outstanding tranches in 2007 to date is so far comparable to that in 2006, the share of tranches under negative review is notably higher in 2007 than a year prior. Furthermore, we expect both totals to be significantly higher once the impacts from the October RMBS rating actions are incorporated into our CDO rating surveillance analysis.

Figure 2

**US SF CDO Rating Actions by Deal and Tranche Count**

As of September 30, 2007

		Outstanding*	Downgraded		Review for Downgrade		Upgraded		Review for Upgrade	
		Count	Count	%	Count	%	Count	%	Count	%
2007	By Deal	973	57	5.86%	165	16.96%	15	1.54%	7	0.72%
	By Tranche	4,532	82	1.81%	363	8.01%	42	0.93%	19	0.42%
2006	By Deal	700	26	3.71%	27	3.86%	18	2.57%	37	5.29%
	By Tranche	3,229	57	1.77%	62	1.92%	42	1.30%	100	3.10%

\* For 2007, this is the total outstanding on September 30, 2007, whereas for 2006, this is the total outstanding on December 31, 2006.

Figure 3

**US SF CDO Rating Actions by Outstanding Tranche Principal Balance**

As of September 30, 2007

	Outstanding*	Downgraded		Review for Downgrade		Upgraded		Review for Upgrade	
	\$Bn	\$Bn	%	\$Bn	%	\$Bn	%	\$Bn	%
2007	534.18	3.05	0.57%	13.38	2.50%	1.96	0.37%	0.41	0.08%
2006	348.52	3.30	0.95%	3.67	1.05%	0.80	0.23%	3.94	1.13%

\* For 2007, this is the total outstanding on September 30, 2007, whereas for 2006, this is the total outstanding on December 31, 2006.

**HIGHLIGHTS FOR FIGURES 4 AND 5**

- For comparison purposes, Figures 4 and 5 provide summaries of rating actions in other US CDO sectors (i.e. all US CDOs excluding SF CDOs). The data shows that the first nine months of 2007 saw approximately an equal number of negative and positive rating actions on non-SF CDO tranches. For example, Moody's downgraded 57 non-SF CDO tranches and also upgraded 55 during this period. Both the negative and positive rating actions outside SF CDOs were fewer in 2007 to date than the totals observed in 2006.
- Most of the negative CDO rating actions outside SF CDOs were market-value CDOs and some were Trups (trust preferred securities) CDOs and corporate synthetic CDOs. However, these actions were related to sub prime. The downgrades in the market-value CDOs were all triggered by unprecedented declines in the prices of mortgage related securities in the portfolio, and the negative review actions of Trups CDO securities were the result of the deteriorating performance of mortgage REITs.

Figure 4

**Other US CDO Rating Actions (excl. US SF CDO) by Deal and Tranche Count**

As of September 30, 2007

		Outstanding*	Downgraded		Review for Downgrade		Upgraded		Review for Upgrade	
		Count	Count	%	Count	%	Count	%	Count	%
2007	By Deal	1,550	27	1.74%	21	1.35%	28	1.81%	26	1.68%
	By Tranche	6,461	57	0.88%	71	1.10%	55	0.85%	47	0.73%
2006	By Deal	1,242	56	4.51%	61	4.91%	70	5.64%	78	6.28%
	By Tranche	5,320	94	1.77%	114	2.14%	147	2.76%	164	3.08%

\* For 2007, this is the total outstanding on September 30, 2007, whereas for 2006, this is the total outstanding on December 31, 2006.

*Figure 5*  
**Other US CDO Rating Actions (excl. US SF CDO) by Outstanding Tranche Principal Balance**  
 As of September 30, 2007

	Outstanding* \$Bn	Downgraded \$Bn	%	Review for Downgrade \$Bn	%	Upgraded \$Bn	%	Review for Upgrade \$Bn	%
2007	505.19	1.81	0.36%	3.97	0.79%	3.18	0.63%	4.45	0.88%
2006	410.55	4.18	1.02%	4.66	1.14%	13.41	3.27%	11.47	2.79%

\* For 2007, this is the total outstanding on September 30, 2007, whereas for 2006, this is the total outstanding on December 31, 2006.

## HIGHLIGHTS FOR FIGURES 6 AND 7

- As expected, Moody's has taken more rating actions on lowly rated SF CDO tranches than on highly rated ones. For example, both the total number and share of securities affected by the negative rating actions (downgrades and reviews for downgrade) are smaller in the **Aaa** and **Aa** rating categories than in the **A** and **Baa** categories.
- As of September, the negative rating actions have started to significantly impact SF CDO tranches that were initially rated **A** and **Baa**. For example, more than 10% of the **A**-rated SF CDO tranches have been put on negative reviews in 2007 both based on counts and outstanding principal balances. For the **Baa**-rated tranches, the share of tranches placed under negative review was around 14% by count and roughly 17% by principal balance outstanding at the end of September. In addition, as a result of the large number of subprime RMBS negative rating actions taken on October 11, we expect these percentages to be significantly higher, even for tranches rated single-**A** and above.
- About a third of the negative rating actions in 2007 to date were taken on originally **Baa**-rated tranches. In addition, 24 **Aaa** SF CDO tranches experienced new negative rating actions in September, 16 of which were synthetic SF CDOs. The total affected **Aaa** SF CDO tranches continued to be a small share (about 1% by their outstanding principal balance) of all such securities.

*Figure 6*  
**US SF CDO Tranche Rating Actions by Rating**  
 As of September 30, 2007  
 (Based on counts)

	Original Rating	Outstanding* Count	Downgraded Count	%	Review for Downgrade Count	%	Upgraded Count	%	Review for Upgrade Count	%
2007	Aaa	1,836	11	0.60%	39	2.12%	6	0.33%	0	0.00%
	Aa	838	15	1.79%	63	7.52%	4	0.48%	4	0.48%
	A	733	19	2.59%	76	10.37%	13	1.77%	7	0.95%
	Baa	862	28	3.25%	123	14.27%	12	1.39%	8	0.93%
	Ba	258	9	3.49%	61	23.64%	6	2.33%	0	0.00%
	B	5	0	0.00%	1	20.00%	1	20.00%	0	0.00%
2006	Aaa	1,239	11	0.89%	13	1.05%	0	0.00%	8	0.65%
	Aa	620	16	2.58%	18	2.90%	12	1.94%	25	4.03%
	A	532	4	0.75%	5	0.94%	11	2.07%	25	4.70%
	Baa	633	23	3.63%	22	3.48%	16	2.53%	32	5.06%
	Ba	200	3	1.50%	4	2.00%	3	1.50%	9	4.50%
	B	5	0	0.00%	0	0.00%	0	0.00%	1	20.00%

\* For 2007, this is the total outstanding on September 30, 2007, whereas for 2006, this is the total outstanding on December 31, 2006.

Figure 7

**US SF CDO Tranche Rating Actions by Rating**

As of September 30, 2007

*(Based on outstanding principal balance)*

	Original Rating	Outstanding*	Downgraded		Review for Downgrade		Upgraded		Review for Upgrade	
		\$Bn	\$Bn	%	\$Bn	%	\$Bn	%	\$Bn	%
2007	Aaa	457.05	1.04	0.23%	4.06	0.89%	0.96	0.21%	0.00	0.00%
	Aa	38.04	0.45	1.17%	3.25	8.53%	0.22	0.57%	0.12	0.32%
	A	19.61	0.63	3.20%	2.42	12.35%	0.39	1.99%	0.11	0.57%
	Baa	15.99	0.77	4.82%	2.79	17.46%	0.24	1.53%	0.18	1.11%
	Ba	3.39	0.17	5.01%	0.81	23.97%	0.13	3.97%	0.00	0.00%
	B	0.09	0.00	0.00%	0.04	47.51%	0.02	16.57%	0.00	0.00%
2006	Aaa	293.29	2.38	0.81%	2.67	0.91%	0.00	0.00%	1.66	0.56%
	Aa	27.41	0.51	1.86%	0.51	1.86%	0.34	1.24%	0.94	3.44%
	A	13.85	0.06	0.41%	0.07	0.48%	0.28	2.03%	0.69	5.00%
	Baa	11.24	0.31	2.77%	0.37	3.30%	0.15	1.36%	0.46	4.13%
	Ba	2.64	0.04	1.59%	0.05	2.07%	0.02	0.82%	0.17	6.30%
	B	0.09	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.02	16.57%

\* For 2007, this is the total outstanding on September 30, 2007, whereas for 2006, this is the total outstanding on December 31, 2006.

**HIGHLIGHTS FOR FIGURE 8**

- 37, or about 84%, of the 44 new downgrade actions in September were taken on SF CDO securities issued in 2006. Similarly, more than 73% of the new negative rating reviews involved 2006 vintage SF CDOs.
- An additional 16 SF CDO tranches closed in 2007 were affected by negative rating actions in September. All of them are synthetic transactions.

Figure 8

**US SF CDO Tranche Rating Actions by Deal Issuance Year***(Based on counts)*

Action	2006		2007 as of 09/30		2007	2007 Action by Issuance Year			
	Count	%	Count	%		2006	2005	2004	2003 or prior
Downgrades	57	1.77%	82	1.81%	3	57	0	0	22
Review for Downgrades	62	1.92%	363	8.01%	41	260	4	5	53
Downgrades and Review for Downgrades	119	3.69%	445	9.82%	44	317	4	5	75
Upgrades	42	1.30%	42	0.93%	0	0	0	3	39
Review for Upgrades	100	3.10%	19	0.42%	0	0	0	5	14
Upgrades and Review for Upgrades	142	4.40%	61	1.35%	0	0	0	8	53

**HIGHLIGHTS FOR FIGURE 9**

- SF CDO tranches that were rated **Aaa** or **Aa** at the beginning of 2007 continued to experience relative mild rating migrations as of September. To date, none of them were downgraded into the speculative grade category. Additionally, eight single-**A** tranches and 20 **Baa**'s were downgraded into the speculative grade category, representing 1.5% and 3.5% of the total number of outstanding tranches in these categories, respectively.
- More than 90% of the securities in each of the four broad investment-grade categories did not experience any rating changes in 2007.
- Nine **Aaa** tranches were downgraded into the **Aa** category. Seven of the nine downgraded tranches were from transactions closed in 2006.
- Almost no tranches were downgraded into the **Ca** or **C** category in the first nine months of 2007 except for four tranches that had a rating of **Caa** at the beginning of the year. In addition, two single-**A** tranches from the same transaction that was closed in 2003 were downgraded into the **Caa** category in September.

- The share of SF CDO tranches to sustain negative rating actions is expected to be much higher across all rating categories once we have incorporated the impact from the October subprime RMBS rating actions into the CDO rating surveillance analysis.

Figure 9

**Rating Transition Matrix for US SF CDOs (1/1/07-9/30/07, Based on Counts)**

09/30/07 Rating Count										
01/01/07 Rating	Aaa	Aa	A	Baa	Ba	B	Caa	Ca/C	WR	Total
Aaa	1,198	9	-	-	-	-	-	-	15	1,222
Aa	3	594	6	2	-	-	-	-	10	615
A	-	9	489	9	6	-	2	-	6	521
Baa	3	-	3	543	15	5	-	-	13	582
Ba	-	-	-	7	187	3	3	-	5	205
B	-	-	-	-	-	12	1	-	1	14
Caa	-	-	-	-	2	2	13	4	-	21
Ca/C	-	-	-	1	-	-	2	61	2	66

09/30/07 Rating Percent										
01/01/07 Rating	Aaa	Aa	A	Baa	Ba	B	Caa	Ca/C	WR	Total
Aaa	98.04%	0.74%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.23%	100.00%
Aa	0.49%	96.59%	0.98%	0.33%	0.00%	0.00%	0.00%	0.00%	1.63%	100.00%
A	0.00%	1.73%	93.86%	1.73%	1.15%	0.00%	0.38%	0.00%	1.15%	100.00%
Baa	0.52%	0.00%	0.52%	93.30%	2.58%	0.86%	0.00%	0.00%	2.23%	100.00%
Ba	0.00%	0.00%	0.00%	3.41%	91.22%	1.46%	1.46%	0.00%	2.44%	100.00%
B	0.00%	0.00%	0.00%	0.00%	0.00%	85.71%	7.14%	0.00%	7.14%	100.00%
Caa	0.00%	0.00%	0.00%	0.00%	9.52%	9.52%	61.90%	19.05%	0.00%	100.00%
Ca/C	0.00%	0.00%	0.00%	1.52%	0.00%	0.00%	3.03%	92.42%	3.03%	100.00%

09/30/07 Rating Count																							
1/1/2007 Rating	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	B3	Caa1	Caa2	Caa3	Ca	C	WR	Total
Aaa	1,198	2	3	4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15	1,222
Aa1	-	70	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70
Aa2	3	2	414	1	-	3	1	-	1	-	-	-	-	-	-	-	-	-	-	-	-	8	433
Aa3	-	-	-	107	-	1	1	1	-	-	-	-	-	-	-	-	-	-	-	-	-	2	112
A1	-	-	2	-	32	-	-	-	1	1	-	-	-	-	-	-	-	-	-	-	-	-	36
A2	-	-	-	-	1	292	2	2	2	2	-	2	-	-	-	-	-	-	-	-	-	2	305
A3	-	-	2	5	-	2	160	1	-	-	3	1	-	-	-	-	-	-	2	-	-	4	180
Baa1	-	-	-	-	-	-	-	43	-	1	-	-	-	-	-	-	-	-	-	-	-	1	45
Baa2	3	-	-	-	1	2	-	2	402	6	1	1	8	1	1	1	-	-	-	-	-	10	439
Baa3	-	-	-	-	-	-	-	1	-	88	3	-	2	-	-	2	-	-	-	-	-	2	98
Ba1	-	-	-	-	-	-	-	-	-	-	86	2	-	-	-	1	1	1	-	-	-	-	91
Ba2	-	-	-	-	-	-	-	2	2	2	1	63	2	1	-	-	1	-	-	-	-	4	78
Ba3	-	-	-	-	-	-	-	-	-	1	-	-	33	-	-	1	-	-	-	-	-	1	36
B1	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-	-	-	-	1	3
B2	-	-	-	-	-	-	-	-	-	-	-	-	-	1	3	-	1	-	-	-	-	-	5
B3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6	-	-	-	-	-	-	6
Caa1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	1
Caa2	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-	-	-	5	-	1	-	-	8
Caa3	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	-	-	7	2	1	-	12
Ca	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	-	29	-	1	31
C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-	-	32	1	35

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2. [US Subprime Mortgage Market Update: September 2007](#), Oct 3, 2007
3. [Moody's Subprime Mortgage Servicer Survey on Loan Modifications](#), September 21, 2007
4. [Structured Finance CDO Ratings Surveillance Brief, August 2007](#), September 20, 2007
5. [Early Defaults Rise in Mortgage Securitizations: Updated Data Show Continued Deterioration](#), September 19, 2007
6. [Rating Actions in the U.S. CDO Market: Year-to-Date Review - June 2007](#), August 2007
7. [The Performance of Structured Finance Ratings: Full-Year 2006 Report](#), May 2007
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Doc ID# SF112924

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